## Washington State
## Liquor Control Board
## Strategic Plan 2005-2007

# Preface

The wholesale and retail sale of alcohol products is a major revenue-generator for the State of Washington. In the last 70 years, the WSLCB has sent more than $4 billion to the state general fund and to health and human service accounts to support public education, enforcement, local communities, research and many other state and local services.

In the next decade, if current 6 percent growth is maintained, the agency will return more than $3.25 billion in revenue to the state. However, if critical investments are made this biennium, that amount could increase to as much as $4 billion, equaling all the revenue earned in the agency's history.

Since its founding in 1933 following the repeal of Prohibition, the Washington State Liquor Board has carried out a dual mission common to the 19 control states and jurisdictions in the United States: to maximize the return of revenues earned from the sale and distribution of spirits and to protect the public from the negative effects of over-consumption.

The WSLCB aggressively carries out its public safety mission by conducting a comprehensive enforcement effort and through effective and fair licensing and regulatory practices that stress high-quality customer service. The agency also supports statewide educational programs to reduce youth access, prevent adult alcohol abuse and strengthen prevention programs in local communities. Licensing, enforcement and education activities save the state millions of tax dollars each year by mitigating the negative social effects of alcohol abuse.

This Strategic Plan proposes investments in the next biennium to help the agency increase the revenue it will return to the state and local communities. The agency is at a crossroads. Much is at stake. Investments in new stores, in technology and employee training are needed to propel the agency forward to a new level of performance. Reinvestment strategies are needed to sustain the agency's ability to run like a successful business and increase revenue. Cost-recovery mechanisms are needed to meet growing demand for licensing and enforcement.

The WSLCB intends to become a model state agency. It strives to conduct its affairs with the utmost responsibility and integrity and to successfully pursue all aspects of its mission. The goals, objectives and strategies outlined in this Strategic Plan provide a comprehensive picture of the path we are following as we build the agency's capacity to serve the state and its citizens.

**Merritt D. Long,** Chair
**Pat Kohler,** Administrative Director

**Roger Hoen, Vera Ing**
Board Members

M. Long

DEP. EXHIBIT 183
7-26-05

PLAINTIFF'S EXHIBIT
CASE NO. CV04-0360P
EXHIBIT NO. 012

# Washington State
# Liquor Control Board
# Strategic Plan 2005-2007

## Strategic Overview

### Introduction

In the 70 years between the end of Prohibition and 2003, the Washington State Liquor Control Board returned about $4 billion in revenue to the state through its control of the sale and taxation of spirits, beer and wine and through the licensing and regulation of businesses that produce, distribute and sell these products.

Revenue returned to the state has increased an average of more than six percent annually since 1997. The agency will return nearly $250 million to the state this year. A **six** percent annual increase in revenue between 2004 and 2014 would net about $3.25 billion to the state and local communities. An **eight** percent annual increase would net nearly $4 billion, an amount equal to *all* the revenue earned in the previous 70 years.

The initiatives outlined in the WSLCB Strategic Plan will establish a firm foundation for the agency to become a more effective revenue generator for the state. Two important strategies are recommended to increase future support for the agency. One would be to allow the WSLCB to reinvest a portion of the revenue it earns from retail and wholesale business operations back into those operations. A second would be to allow the WSLCB to recover costs resulting from growth in licensing and enforcement activities.

If appropriations are used to strengthen the agency's foundation this biennium, and if reinvestment and cost-recovery strategies are approved to help the agency fund its business operations from now forward, then the agency will be in a much stronger position to improve revenue generation over the next decade.

### The WSLCB's Unique Role

The WSLCB is *unique among state agencies*. No other state agency operates a $600 million annual statewide retail business that returns nearly $250 million annually in revenue. No other agency exercises a statewide monopoly over all categories of a market commodity (spirits). No other agency regulates the product it sells. No other agency is required to protect the public from the effects of the product or service it provides.

The WSLCB is not just an important revenue-generator for the state. In exercising its regulatory and public safety responsibilities, the agency *saves* the state millions of dollars annually by mitigating the negative effects of alcohol abuse. The costs of alcohol abuse are widely documented in many studies of health care, lost productivity, property damage, premature death, crime and other social problems. There is a growing societal concern about the negative impact of alcohol abuse, as evidenced by much more stringent DUI laws, growing efforts to regulate alcohol advertising, increasing number of Alcohol Impact Areas, and growing numbers of community interest coalitions.

### Balanced Mission

The WSLCB was established to fulfill a *balanced mission*, which under **RCW 66.08.010** means the agency exists to meet *un-stimulated demand* for spirituous liquor and to *protect public safety* through licensing, market regulation, enforcement and education. As the state's population continues to increase, the demand for alcohol products will grow. Increased capacity in licensing, enforcement and education also will be needed.

### Organization

The WSLCB is composed of a three-member board appointed by the Governor and confirmed by the Washington State Senate. Members serve staggered six-year terms. The board members work 60 percent time establishing agency policy and conducting regular meetings to enact rules and hear citizen and stakeholder concerns. An Administrative Director is in charge of daily operations.

### Key WSLCB Divisions

The following divisions are engaged in direct customer service:

***Retail***
***Purchasing*** *(function collaboratively)*
***Distribution Center***

***Licensing and Regulation***
***Enforcement and Education***

Four other divisions provide foundational support:

***Human Resources***
***Information Technology Services***
***Financial***
***Policy, Legislative and Media Relations***

### Retail Business Plan

The Retail Business Plan appended to the Strategic Plan illustrates in greater detail how the agency can increase its revenue-generating capacity by adopting best business practices, improving customer service, opening new stores, relocating existing stores and developing better in-store merchandising strategies.

### WSLCB Supports Priorities of Government

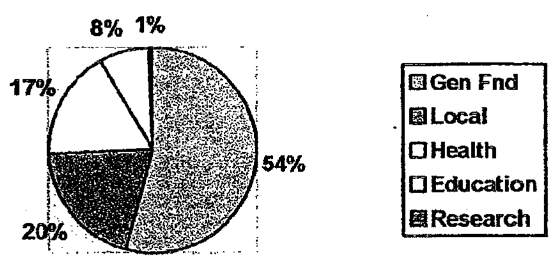
In developing agency priorities for 2005-2007, care was taken to ensure the agency's priorities align with and support the major areas of emphasis outlined in the state's *Priorities of Government*. The nearly $250 million in revenue raised by the WSLCB in FY 2004 will directly support many of the programs and services that appear on the Governor's list of *critical statewide results* citizens expect from their government:

- *Student achievement (1)*
- *Workforce quality and productivity (2)*
- *Health and human services (4)*
- *Economic vitality of business (6)*
- *Safety of people and property (8)*
- *Government efficiency (11)*

### WSLCB Revenue Distributed Statewide

A total of $224.4 million was returned to the state in 2003. More than $120 million in revenue was sent to the State General Fund. In 2004, the agency expects to return more than $245 million. Some of this is disbursed by statute for health, prevention and other programs. The remainder becomes part of the state's general revenue, much of which is used to support public education. A more detailed chart in the Retail Business Plan shows revenue distributions to key state programs over the last decade.

**Revenue Distribution 2003 - $224.4 Million**




| | | |
|---|---|---|
| **General Fund** | **$121.6** | |
| **Cities/Counties** | **$45.4** | |
| **Health Services** | **$38.7** | **(in millions)** |
| **Education/Prevention** | **$17.4** | |
| **Research** | **$1.3** | |

### WSLCB's Economic Impact on Washington

Total operational activity measured in dollars is nearly $600 million annually. In FY 2003, the WSLCB returned $224 million in revenue to the state. This year the agency will return at least $245 million. The aggregate annual economic impact of this operational activity on the state economy can be calculated as $1.5 billion.

### State Investment in WSLCB Recognizes Growth Potential

Since 2000, the WSLCB has sought and gained approval from the state for a series of improvements that have strengthened the agency's capacity to meet the challenges of future growth.

- *In 2000, the state approved a new operational model for the agency, by authorizing the appointment of an Administrative Director.*
- *In 2002, the Board reduced its hours to 60 percent, saving more than $120,000 annually.*
- *In 2002, the agency developed its first Retail Business Plan.*
- *In 2002, a new Distribution Center, 10 years in planning and development, was opened in Seattle and is now operating at a 95 percent fill rate. The DC is nationally recognized for its innovative processes.*
- *In 2002, the agency began a broad review of its policies and risk management processes designed to produce continuous improvement in all aspects of its operations.*
- *In 2003, the Legislature approved the addition of five new stores to meet growing demand caused by growth in the drinking-age population.*
- *In 2004, the Legislature passed a bill giving the agency authority to set fees to recover costs associated with increased demand for licensing services.*

### Performance Measures

Many positive performance indicators are evident as the agency moves forward. Sales performance has been especially strong in the first nine months of this fiscal year. As of March 31, 2004, for all classes of products (spirits, wine, cider, beer, alcohol):

- Gross dollar sales are up 9.21 percent compared to 2003.
- Case sales are up 4.84 percent, an increase of 142,518 cases.
- Liter sales are up 3.93 percent, an increase of 1,092,490 liters.

Other performance indicators:

- Fill rates at the Distribution Center are averaging 95 percent or better.
- Tobacco and liquor compliance rates are near 90 percent.
- Stores are meeting their budget goals.
- A simplified licensing procedure has reduced wait time 6 days. More than 30 license requests come in daily.

### Revenue Growth Projection

The WSLCB believes it can average eight percent annual revenue increases during the next decade by:

- Adding new stores and new store types
- Achieving greater operating efficiencies
- Implementing new information technology and infrastructure
- Investing in employee training
- Expanding the Distribution Center
- Implementing cost-recovery/reinvestment strategies

The agency believes it can produce significantly more revenue over the next decade if foundational investments are made now and if reinvestment strategies are used to grow the business to a new level success. Time plays an important factor. If relatively small but much-needed investments are delayed now, disproportionate reductions will occur in future revenue-generating capacity.

### Why Reinvestment and Cost Recovery Strategies Are Needed Now

The WSLCB is not allowed to reinvest any of the revenue it generates in its core business and service operations outside of the money it spends for product re-supply. All agency operating costs are funded by appropriations. The time lag in the appropriations process has several major negative impacts.

- It prevents quick response to changing market conditions and, consequently, reduces opportunity to improve revenue.
- It significantly reduces the agency's ability to implement long-range strategies to improve performance because funding for those strategies is uncertain.
- It can lower employee morale by delaying needed improvements, an especially important bottom-line factor in a retail sales environment.

Cuts experienced in the last four years have taken a toll on the WSLCB.

- *Staffing levels are thin, especially in the stores.*
- *There is excessive turnover in some areas.*
- *Many employees (up to 29 percent) are eligible to retire in two years.*
- *Important technology improvements have not been made.*
- *Vital employee training programs are on hold.*
- *New revenue-generating opportunities are being lost.*
- *Civil Service Reform is consuming increasing amounts of staff time.*

WSLCB Goals 2005-2007

*(1) Maximize revenues to the citizens of Washington.*

*(2) Enhance public safety by enforcing liquor and tobacco laws.*

*(3) Educate the public about the WSLCB mission and contributions to the community.*

*(4) Recruit, develop, retain and value a high-quality, diverse workforce.*

*(5) Modernize existing business systems and improve service delivery.*

These goals were developed following a series of meetings in 2003 and 2004. All agency employees were represented or included in these planning meetings and additional input was sought through open forums, surveys and in meetings.

# Challenges and Opportunities

**General Challenges**

*Revenue Re-investment Mechanisms*

**Goals: 1-5**

The WSLCB needs to reinvest a percentage of the new revenue produced through improved retail and wholesale services in *infrastructure* and *employee training* – especially in the area of its retail liquor business – if it is to achieve its full revenue-generation potential.

*Cost Recovery Mechanisms*

**Goals 1-5**

Just as the agency needs to reinvest some of the revenue it earns from its retail business to grow that business, it also needs the ability to recover direct and indirect costs it incurs carrying out its public safety mission. More information is contained in the Licensing and Regulation Division summary.

*Information Technology*

**Goals 1-5**

The board, senior staff and the agency's employees have concluded that improving technology should be a top agency priority. Several technology improvements are needed: a *Wide Area Network* to support the point-of-sale system being installed in the stores; improvements to *Core Technology Operations*; and improvements to the *Licensing Database* and in *Online Service Delivery*. Each of these improvements has the potential either to increase revenue or improve service to the public.

*Civil Service Reform*

**Goals 1-5**

This sweeping legislation mandates a complete overhaul of collective bargaining and an agency assessment process for competitive contracting, among other key objectives. Organized labor partners with the agency in accomplishing its retail, wholesale and enforcement missions, producing a complex workforce dynamic. The agency's Human Resource Division will experience significant added workload as CSR advances.

*Workforce Development*

**Goals 1-5**

The agency needs to recruit and retain high-quality employees. More than 29 percent of WSLCB employees are eligible to retire by 2005. The agency stands to lose valuable organizational knowledge and experience if its current workforce is not given the tools to assume new responsibilities. A more strategic effort to recruit and retain high-quality employees is needed now to build staff capacity to fill the gaps these retirements will create.

*Policy Development and Risk Management Processes*

**Goals 1-5**

Policy development and improvements in management processes also have been identified as major agency priorities and are being addressed through a major policy initiative. The agency is behind and attempting to catch up in these vital foundational areas. Consistent, clear and meaningful policies and processes are particularly important in the retail and wholesale operation because the stores are spread over such a wide area.

*Employee Training*

**Goals 1-5**

Budget cuts, loss of a centralized training manager position and competing agency priorities have gutted the agency's training program. The LCB also lacks adequate technology for more cost-effective training options (e.g., wide-area network). Lack of training has been linked to increased tort claims, lawsuits and disciplinary actions. Additional training is needed to develop better customer service.

*Increased Licensing Activity*

**Goals 2,3,5**

The number of retail and non-retail licensees is increasing dramatically. In addition to the increase in volume of applications, the licensing function has become more complex. Reducing processing time for customers is a key goal. However, the LCB is limited by reliance on manual processes, lack of online tools, disjointed data systems and an obsolete computer system that cannot support reporting and analysis, and is no longer vendor-supported.

*Increased Interest in Alcohol Impact Areas*

**Goals 2-3**

Since rules permitting communities to form Alcohol Impact Areas were passed in 1999, an increasing number of requests have been received for assistance. Even more AIA work will be needed as communities attempt to curb the problems associated with chronic alcohol abuse. Alcohol Impact Areas add significantly to Licensing's administrative workload. New product information must be analyzed, stores monitored and regulations enforced. Additional technology and training are needed to support this mission.

*Legal Challenges*

**Goals 2-3**

This year Costco challenged Washington's laws regulating the distribution of beer and wine as illegal under the Sherman Anti-Trust Act. Nationwide, wine producers are mounting a campaign to challenge state regulations governing the importation of wine. Additional legal challenges are expected to the complex set of rules and laws that ensure a strong regulatory environment and increased public safety. Much of the burden in meeting these legal challenges is placed on the Licensing and Regulation Division.

*National Accreditation for Enforcement*

**Goals 2-4**

Enforcement is seeking to become nationally accredited by the Commission on Accreditation for Law Enforcement Agencies (CALEA). CALEA accreditation ensures that agency enforcement policies, practices and training curriculum meet nationally recognized standards for the delivery of law enforcement services. Accreditation reduces risk, increases efficiency in service delivery, and increases citizen and employee confidence in the agency. The required training for national accreditation is being addressed through a decision package request for FY 05-07.

**Critical Partnerships**

*Partnership with Department of Licensing*

An inter-agency agreement with the Department of Licensing (DOL) allows liquor licensees to renew their licenses online using DOL's website. Offered for the first time in December 2003, this new service is expected to reduce the number of late renewals, which require extra staffing time by Licensing and Enforcement personnel. It also should save licensees money by reducing late fees.

*Partnership with Department of Health*

In partnership with DOH, Enforcement conducts 3,000 annual compliance checks to ensure compliance with the federal Synar (Youth Access to Tobacco) act. The division produces training videos for retailers and is pursuing a partnership with DOH to enable the collection of tobacco compliance check data through the use of handheld computers.

*Partnership with Department of Revenue*
In 2003, taxes for all tobacco-related products exceeded $422 million. DOR estimates that untaxed tobacco products cost the state $109 million annually. WSLCB tobacco tax agents partner with DOR in an increasingly successful effort to collect revenue from untaxed cigarettes illegally shipped into the state for sale in smoke shops or sold on the Internet without state stamps.

## Conclusion

The Washington State Liquor Control Board can become a model state agency and generate increasing revenue during the next decade. The agency's employees are excited about the opportunity to make this happen. In the last two years, the agency has made substantial strategic progress in all elements of its business and regulatory affairs. The WSLCB is prepared to run more like a successful business. The basic strategic planning outlined in this plan will propel it forward at a rapid rate.

Much remains to be done: additional policy development and implementation; improved internal controls and process improvement; employee training; Civil Service Reform; technology improvement; and infrastructure development. The WSLCB is confident it can meet and exceed the expectations raised in this plan if the state funds the agency as a full partner.

Washington State
Liquor Control Board
Strategic Plan 2005-2007

# Retail Services, Purchasing Services Distribution Center

## Overview

Three closely linked divisions carry out and provide support for the wholesale and retail operation: *Retail Services, Purchasing Services and the Distribution Center*. These divisions continually share and analyze data on prices, shipping and storage strategies, retail sales trends, revenue and a myriad of additional business details.

*Retail Services* provides direction and support for the 161 state and 154 contract liquor stores. Each state store has a manager, an assistant manager and full- and part-time retail clerks. Altogether there are about 690 full-time-equivalent employees in the retail and wholesale operation, or nearly 62 percent of the agency's 1,100 employees.

*Purchasing Services* continually analyzes product consumption trends and recommends the listing and de-listing of products based on sales, price, type and many other considerations. State stores stock a varied inventory of spirituous liquor – much larger than that found in similar-sized private stores in non-control states.

*The Distribution Center* stores and ships all products to the state and contract stores. Stores place orders with the DC weekly. The DC, a fully automated warehouse and shipping facility, handles more than 45 million units annually and has a storage capacity of 585,000 cases.

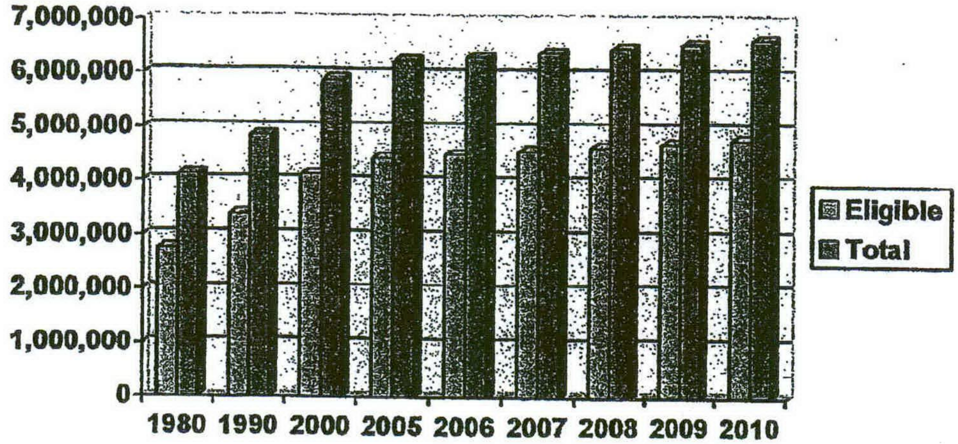
## Market Conditions

Washington's population is 6.1 million. About 4.4 million of the state's citizens are 21 years or older. This drinking-age population is expected to reach 4.8 million by 2010, when the total population reaches 6.6 million.

More drinking-age adults will produce greater product demand. If current trends continue, revenue return will increase. Increased demand for licenses to sell liquor by the drink will produce greater revenue, as well. The agency believes it can meet this increased demand and maximize revenue if long-overdue investments are made in this biennium.

The chart on the next page shows population growth trends and predictions, along with growth in the number of drinking-age adults.

**Total Population/Drinking-Age Population 1980-2010**




**Population Growth Projections in Millions**

| | 1980 | 1990 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Total | 4.132 | 4.866 | 5.894 | 6.233 | 6.310 | 6.389 | 6.470 | 6.553 | 6.639 |
| 21+ | 2.759 | 3.387 | 4.127 | 4.439 | 4.507 | 4.577 | 4.647 | 4.718 | 4.791 |

## Consumption Trends

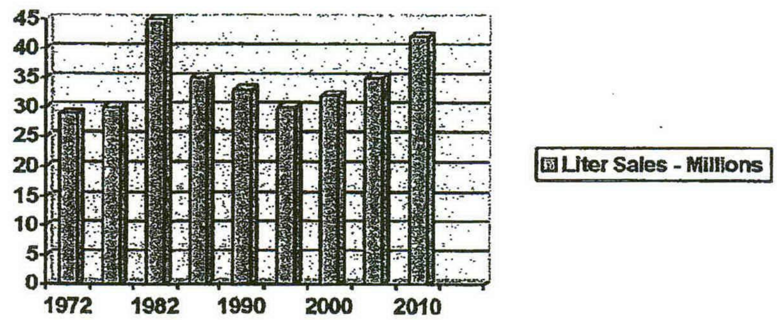
Consumption trends as measured by the number of liters sold have been moving steadily up since 1998, paralleling the growth in drinking-age population. Liter sales by 2010 are projected to be about 42 million bottles annually.

In the mid-1980s, the price of liquor increased sharply due to increases in the federal excise tax and Washington State spirit taxes. Tougher DUI laws were enacted and the government and media called attention to the rising health and social costs of alcohol abuse. This produced declining levels of consumption.

The price of spirits has been relatively inelastic since the increases in the 1980s. Consequently, price is not playing a major factor in the consumption rate. Overall, Washington consumers continued a recent trend of 'trading up,' or making purchases in the higher price ranges of almost every beverage alcohol category. This buying pattern produces greater revenues for the state, especially when increasing bottle sales are factored.

TO Interview
05-12-07

**Number of Liters Sold 1972-2010**




Other Washington state consumption indicators for FY 2003:

- *Spirit sales increased $24.5(M) or 5 percent.*
- *Spirit case sales increased 3.1 percent.*
- *Spirit liter sales increased 2.7 percent.*
- *Case sales in the flavored vodka grew 26.5 percent.*
- *Case sales of flavored rum grew 12.3 percent.*
- *Wine sales increased $800,000 or 2.1 percent.*
- *Wine case sales increased 2.1 percent.*
- *Wine liter sales increased 2.5 percent.*
- *Beer is losing some market share to wine.*
- *Nearly 40 percent of drinking age adults purchase wine.*
- *Red wine is the most popular wine sold by a slight margin.*

### National Consumption Trends

Washington's consumption trends mirrored a larger national upswing in spirit sales driven by flavorful and high-end products such as flavored vodkas, rums and tequilas; varietal wines; and the ongoing popularity of imported beers. Nationally, spirit sales climbed 3.8 percent in 2003, reaching more than 159 million 9-liter cases. Wine consumption climbed 4.9 percent to the highest levels since the 1980s. Overall, consumers spent $8 billion more on spirits in 2003 than they did in the previous year. Total retail sales increased $145.4 billion on essentially the same level of case sales, reflecting the 'trading-up' trend.

### Revenue Growing Steadily

Revenue forecasts for FY 2004 show more than $245 million being returned to the state by the WSLCB. Revenues have increased at a healthy rate averaging more than six percent since 1997. If revenue growth continues to average six percent annually, more than $3 billion in revenue will be returned to the state in the next decade (2004-2014).

**REVENUE DISTRIBUTION 1994-2003 (in millions)**

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cities** | 27.0 | 25.7 | 25.5 | 26.2 | 30.3 | 31.0 | 29.6 | 33.0 | 34.0 | 35.7 |
| **Counties** | 6.8 | 6.4 | 6.6 | 7.2 | 7.4 | 7.1 | 8.2 | 8.5 | 8.5 | 9.0 |
| **State** | 99.9 | 96.8 | 95.9 | 98.5 | 100.7 | 101.7 | 107.9 | 113.9 | 117.1 | 121.6 |
| **Border Areas** | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| **DSHS** | 4.7 | 5.2 | 5.4 | 5.4 | 5.2 | 5.3 | 5.3 | 5.6 | 5.8 | 6.1 |
| **SPI** | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Drug Enforcement** | 11.4 | 9.9 | 9.7 | 9.6 | 10.1 | 11.8 | 10.4 | 10.2 | 10.7 | 11.0 |
| **Health Care** | 11.9 | 11.6 | 20.3 | 20.7 | 29.2 | 37.6 | 35.8 | 35.3 | 37.6 | 38.7 |
| **Universities** | 0.7 | 0.8 | 0.8 | 0.9 | 0.8 | 0.9 | 0.7 | 0.6 | 0.8 | 0.8 |
| **Rapid Transit** | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| **Wine Commission** | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 |
| **Youth Tobacco Prevention** | | | | | - | | | | 0.1 | 0.1 |
| **WSP Toxicology** | | | | | | | | | 0.2 | 0.2 |
| **Total** | **163.0** | **157.1** | **164.7** | **168.5** | **184.2** | **196.5** | **197.9** | **207.9** | **215.9** | **224.4** |

## Challenges to Future Revenue Growth

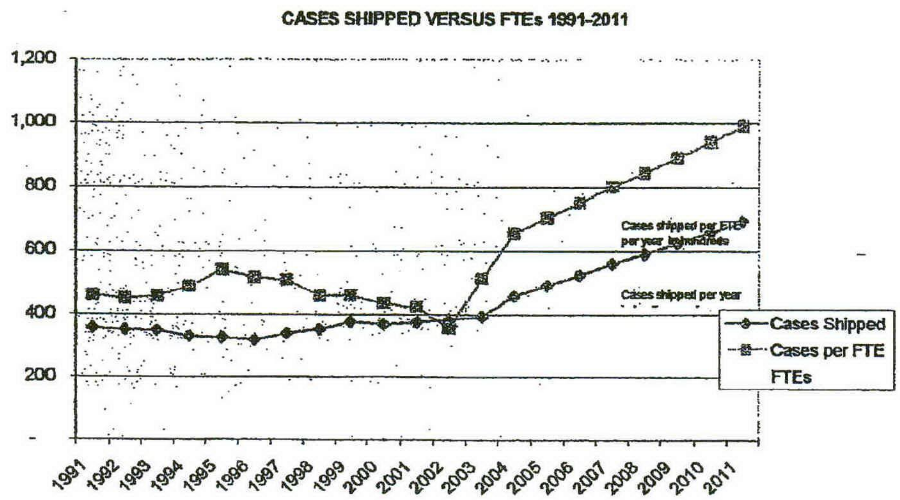
- *State stores are intended to meet un-stimulated demand.*
- *State law forbids the agency to advertise or engage in product promotion through discounting.*
- *The state's two-year appropriation cycle slows the ability to respond quickly to a wide range of business challenges – to open new stores and relocate existing stores, for example.*
- *The uncertainty of the appropriations process significantly diminishes the agency's ability to plan and perform strategically.*
- *Employee hours allocated to support retail sales have been reduced.*
- *The Distribution Center will reach its operational limit in two years.*

## Distribution Center Capacity Issues

The Retail Business Plan emphasizes the need for adding capacity to the Distribution Center during the next biennium. The WSLCB distributes spirits and wine to its more than 310 state and contract stores from the DC in Seattle. Designed for a maximum daily shipping volume of 17,500 cases, the warehouse is nearing its capacity during peak shipping periods. Shipping volumes are expected to exceed capacity by FY 2005, outstripping both equipment and labor resources. The chart below shows the trend in cases shipped with projections to 2011.

The DC is an important link in the wholesale and retail operation because it permits the state to operate a bailment inventory system. With bailment, the state is not charged for product until it is shipped to the stores. This defers substantial up-front costs, permitting improved cash flow.

Construction of an addition to the current facility is needed in the next biennium. Not acting now will negatively impact future revenue generation capability.




The chart above shows the number of cases shipped in blue, the number shipped per FTE in pink and the number of FTEs per cases shipped in yellow at the DC between 1991 and 2011.

It is important to note that the ratio of FTEs to cases shipped in FY 1998-2002 rose because the agency was actually operating two separate warehouses while the current DC was under construction. If these years are not included, the number of FTEs have either declined or remained constant while the number of cases shipped has continued to increase.

## Conclusion

Market trends indicate excellent growth potential during the next decade and beyond, as the population of drinking-age adults increases. Spirit prices have remained relatively stable, but customers tend to be 'trading up' to higher-priced brands more, which augurs well for revenue. Additional store capacity, more hours for store employees, new stores and new types of stores, better technology support, better in-store marketing, a DC expansion, new shelf management practices and improved customer service all can lead to improved revenue production. Investments are needed now to provide a firm foundation for these revenue-producing strategies.

# Goal/Objective/Strategy

**Goal:** *Maximize revenues to the citizens of Washington.*

**Objective:** **Implement Retail Business Plan.**

**Strategy:** Open additional stores, relocate existing stores, improve store efficiency and expand Distribution Center.

**Background:** State stores must become an enterprise model following best business practices. Continuous improvement in retail services is needed to ensure an expanded revenue stream.

**Solution:** The **Retail Business Plan for 2005-2007** will:

- *Develop new stores and relocate existing stores.*
- *Reduce inventory management costs.*
- *Develop additional capacity for the Distribution Center.*
- *Provide expanded customer-service training.*
- *Implement technology improvement.*
- *Increase operating efficiencies.*
- *Improve wine merchandising.*

**Stakeholders:** Customers, employees, the public, elected officials, state agencies, producers, distributors, licensees, suppliers, military, tribes, the Distillery Representatives Association of Washington (DRAW) and the Washington Beer and Wine Wholesalers Association (WBWWA)

**Partners:** Business Advisory Council (BAC), DRAW, unions, retail employees

**Lead Divisions:** Retail Services, Distribution Center and Purchasing Services

**Participating Divisions:** Financial, Policy, Legislative and Media Relations, Information Technology Services

**Start:** Ongoing
**Finish:** Ongoing

16, 17, 18
17, 24, 25
26

## Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Maximize revenues to the citizens of Washington.* |
| **Objective:** | **Ensure efficient re-supply of state/contract stores.** |
| **Strategy:** | Expand Distribution Center capacity/optimize operations. |
| **Background:** | The amount of product shipped to state stores grew more than 4 percent annually during the last decade. Original plans for the Distribution Center, drawn up in the early 1990s, called for a 2 percent annual increase. Demand will exceed the capacity of the current facility within two years. Additional plant capacity is needed now. |
| **Solution:** | Plant expansion and additional shipping capacity. |
| **Stakeholders:** | The public, elected officials, WSLCB stakeholders, WSLCB employees, licensees, vendors, distributors, manufacturers, inbound/outbound carriers, WSLCB stores, customers |
| **Partners:** | Suppliers, freight carriers and information technology vendors |
| **Lead Divisions:** | Retail Services/DC, Financial, Purchasing, Information Technology Services |
| **Participating Divisions:** | Human Resources |
| **Start:** | In progress |
| **Finish:** | June 2007 |

## Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Maximize revenues to the citizens of Washington.* |
| **Objective:** | **Create more orderly and secure agency funding mechanisms.** |
| **Strategy:** | Develop legislation permitting the reinvestment of agency revenue in Retail Services. |
| **Background:** | The current appropriations process slows the agency's ability to respond to market trends by delaying innovative business practices. Proposals to expand product line, store outlets and improve service levels within existing outlets require a lengthy approval process that limits the agency's potential to increase revenue. |
| **Solution:** | Develop new, more flexible reinvestment strategies to strengthen the agency's ability to respond to market forces and maximize revenue. |
| **Stakeholders:** | The public, Office of the Governor and Legislature |
| **Partners:** | OFM – Risk Management; legislative staff and Business Advisory Council (BAC) |
| **Lead Division:** | Financial |
| **Participating Divisions:** | Retail Services and Policy, Legislative and Media Relations |
| **Start:** | In progress |
| **Finish:** | June 2007 |

## Goal/Objective/Strategy

| | |
|---|---|
| **Goals:** | *Maximize revenues to the citizens of Washington*<br>*Modernize existing business systems and improve service delivery.* |
| **Objective:** | **Improve the technology foundation of the retail, wholesale and finance operations.** |
| **Strategy:** | Plan, acquire and install new technology supporting these interdependent functions. |
| **Background:** | The MBS plan, approved for implementation in FY 2004, was designed to improve outdated point-of-sale equipment and software in the stores, improve customer transaction time, facilitate the exchange of accounting and inventory data, improve store-wide communication and create a broader, more strategic technology foundation for wholesale, retail and finance operations.<br><br>The plan suffered a setback in 2003 when the vendor was unable to deliver a functioning system within the required timeline. Subsequently, the agency terminated the contract, took possession of hardware and software already purchased and began work to 1) install the point-of-sale equipment using the existing computer network; and 2) seek help from a third-party vendor to install new software to run the new system more efficiently. |
| **Solution:** | Implement systems and process similar to those used throughout private industry. |
| **Stakeholders:** | Elected officials, state agencies, employees, independent contractors, industry stakeholders, customers and the public |
| **Partners:** | OFM, DIS and industry stakeholders |
| **Lead Division:** | Retail Services and Financial |
| **Participating Divisions:** | Information Technology Services |
| **Start:**<br>**Finish:** | In progress<br>Ongoing |

## Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Recruit, develop, train and value a high-quality, diverse workforce* |
| **Objective:** | **Improve employee safety and loss awareness.** |
| **Strategy:** | Implement a loss prevention pilot safety program for stores. |
| **Background:** | The agency has not conducted a formal safety and security program for liquor store employees since 1982. Loss prevention concepts and techniques have evolved significantly to meet increasingly sophisticated challenges. Training is needed to ensure the safety of store employees and customers and to protect the state's investment. |
| **Solution:** | Identify retailers and loss prevention professionals to share current concepts, tools, and techniques. Explore agency's ability to combine new techniques with current practices via a pilot safety program. Monitor results, make recommendations, and identify resources to formally incorporate successful techniques into statewide program. |
| **Stakeholders:** | Customers, legislators, industry partners, community interest groups; employees; unions; state agencies; criminal justice system; licensees; cities/counties |
| **Partners:** | LCB employees, contract liquor store employees, other retailers and loss prevention professionals |
| **Lead Divisions:** | Retail Services, Financial |
| **Participating Divisions:** | Licensing and Regulation, Enforcement and Education and Human Resources |
| **Start:** | In progress |
| **Finish:** | June 2007 |

Washington State
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# Licensing and Regulation

## Overview

Demand for licensing and regulation services is growing as the state's population increases. Alcohol products are available through increasing numbers of retail outlets and alternative venues. The complexity of regulating the alcohol market is increasing even faster than the number of licensees. New laws and rules are continually being developed. Interpretations of existing rules and laws are needed on a daily basis to resolve questions and conflicts arising from these regulations.

The Licensing and Regulation Division is organized into three units:

**On-Premises Licenses** provides assistance for the more than 10,000 establishments licensed to sell beer, wine and/or spirits for on-site consumption.

**Off-Premises Licenses** provides assistance to grocery stores and beer and wine specialty shops selling beer and wine for off-site consumption.

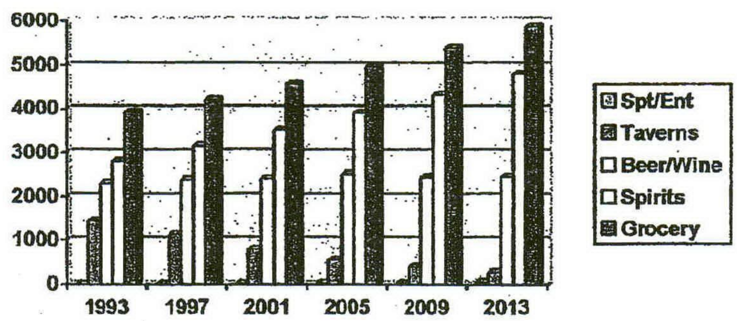
**MIW (Manufacturers, Importers, Wholesalers)** provides oversight for the regulatory system controlling the import, production, sale and distribution of beer and wine in the state.

## Major Activities

The Licensing and Regulation Division:

- *Investigates and issues all liquor licenses.*
- *Maintains a database with information on more than 13,000 licensees.*
- *Processes about 10,000 license and permit requests annually.*
- *Interprets licensing laws and rules and assists in the enforcement of those regulations. Recommends rule and law revisions.*
- *Works closely with cities and neighborhood groups to clarify licensing issues and processes.*
- *Licenses and regulates manufacturers and distributors of beer and wine.*
- *Enforces regulations governing importation of alcohol from other states/countries.*
- *Approves all beer and wine labels.*
- *Oversees Mandatory Alcohol Server Training program.*
- *Conducts training and education programs for licensees.*

## Annual Licenses Issued By Category 1993-2003




| Year | 1993 | 1997 | 2001 | 2005 | 2009 | 2013 |
|---|---|---|---|---|---|---|
| Sports/Entertainment | 0 | 07 | 11 | 17 | 27 | 42 |
| Taverns | 1429 | 1130 | 787 | 551 | 386 | 270 |
| Beer/Wine | 2314 | 2390 | 2408 | 2426 | 2444 | 2462 |
| Spirits | 2811 | 3165 | 3514 | 3900 | 4329 | 4805 |
| Grocery | 3930 | 4214 | 4576 | 4970 | 5397 | 5861 |
| Totals | 10,484 | 10,906 | 11,296 | 11,864 | 12,583 | 13,440 |

The chart above shows increases and projected increases for 1993-2013 in the main retail license categories. It does not include information on special banquet permits, beer and wine outlets and other categories.

Key Facts

- *The number of licensed sports arenas is forecast to increase to 42 by 2013. There are complex and time-consuming licensing and enforcement issues relating to these facilities.*
- *The number of licenses being issued annually to groceries for the sale of beer and wine is expected to increase 28 percent between 2001 and 2013.*
- *The number of licenses issued annually to establishments selling is expected to increase 37 percent between 2001 and 2013.*



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### Special Occasion Licenses

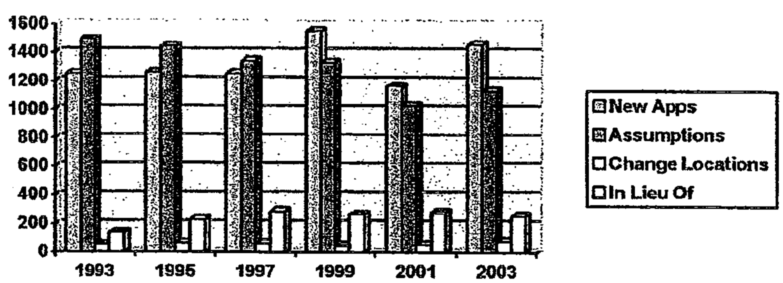
Alcohol also is being consumed more at banquets and special events, often held by non-profit organizations in private homes or rented facilities. Special events, community festivals and fairs and fundraising auctions, can draw from 100 to 10,000 people. Between FY 1999 and FY 2003, the number of special event days increased 55 percent.

| Fees Collected | Number of Event Days |
|---|---|
| FY 99 - $102,215 | 1,703 |
| FY 00 - $118,720 | 1,979 |
| FY 01 - $133,340 | 2,222 |
| FY 02 - $140,200 | 2,337 |
| FY 03 - $158,430 | 2,641 |

- *Banquet permits issued increased 11 percent over the last decade to a total of 28,220 in FY 2003. The agency issues more than 2,500 banquet licenses per year.*
- *Special occasion licenses for alcohol-serving events sponsored by non-profit organizations increased more than 40 percent between FY 1999 and 2003 to a total of 2,641.*

### New License Applications

The agency has received and processed about 3,000 new license applications a year since 1993. The following chart shows the numbers received by category of applicant.




### More Products

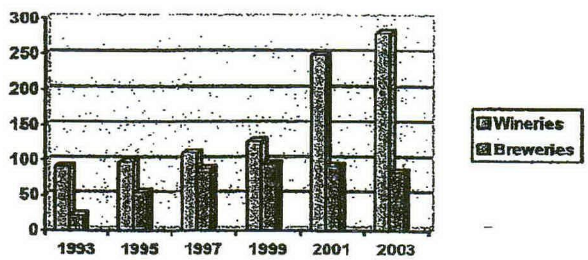
The alcohol beverage industry is dynamic with new products introduced into the market daily. The division is responsible for all beer and wine label approval. The number of beer and wine labels has been increasing rapidly in the last seven years. Beer labels increased 223 percent; wine labels an amazing 267 percent. A greater variety of products creates increased competition among liquor licensees for consumer dollars.

| | 1997 | 2003 |
|---|---|---|
| **Wine Labels** | 13,240 | 48,571 |
| **Beer Labels** | 1,440 | 13,240 |

### Growth in Licensed Producers/Retailers

As retail sales venues have continued to increase and the number of alcohol beverage products has become more diverse, there also has been an increase in the number of businesses producing beer and wine licensed to sell their products either by the drink or across the counter. Washington manufacturers of beer and wine have grown significantly in number.

### Growth in Wineries and Breweries 1993-2003




The preceding chart shows nearly a 300 percent increase in the number of Washington breweries, from 22 to 82 in the last decade, and a 207 percent increase in the number of wineries, from 91 to 280, in the same period.

To promote their products, Washington wineries seek to sell their wines beyond their primary manufacturing sites. The Legislature now allows wineries and breweries to sell wine by the drink and to go at their primary manufacturing sites, at two additional approved locations, in farmers markets and in Washington State Liquor Stores as well as through traditional distributors.

### Staffing

Over the last five years, the division's staffing level of 43 personnel has remained the same despite increases in the volume and complexity of the workload due to growth in the number of licensees and changes in Washington statutes.
In 2004 the Legislature enacted a law (SSB 6655) increasing substantially the number of importers of foreign-made beer and wine allowed to distribute products. The law contained a fee-setting authority permitting the agency to recover the costs of administering this expanded program, a demonstration of the Legislatures confidence in the agency's credibility.

### Conclusion

Licensing and Regulation will continue to experience an increase in demand for its services during the next decade and beyond. Improved online services, a stronger emphasis on customer service, more comprehensive regulatory activity all will require increased resources. Cost-recovery strategies should play an important role in supporting these expanded services.

# Goal/Objective/Strategy

| | |
|---|---|
| **Goals:** | *Enhance public safety by enforcing liquor and tobacco laws. Modernize existing business systems.* |
| **Objective:** | Create more **efficient, effective licensing processes.** |
| **Strategy:** | Replace existing outmoded computing systems to provide improved service delivery, better access to licensee records, and more information about the licensing process. |
| **Background:** | Licensing is a core business function of the WSLCB. Annually, more than 20,000 license applications and transactions are processed. To carry out this work, the Licensing Division must gather and record detailed information about the location, the applicant, the type of business proposed and the license type and privileges sought. Local governments must be given notification of all pending license applications or renewals. The computing system used to support Licensing is old, slow and difficult to maintain. The demand for licenses is increasing. The complexity of licensing requests is growing. Customers expect faster turnaround times and expanded online services. Communities and citizen groups expect improved access to public information. |
| **Solution:** | The agency will offer expanded online licensing services by leveraging existing Internet technologies. A feasibility study has been conducted and a plan to replace the existing system with contemporary technology is being developed. |
| **Stakeholders:** | Customers, legislators, cities/counties, schools, industry partners, community interest groups, employees, unions; other state agencies, licensees and license applicants. |
| **Partners:** | DIS, Department of Licensing, DSHS, State Patrol, Superintendent of Public Instruction and industry partners |
| **Lead Divisions:** | Licensing and Regulation and Information Technology Services |
| **Participating Divisions:** | Enforcement and Education, Retail Services and Policy, Legislative and Media Relations |
| **Start:** | TBD |
| **Finish:** | TBD |

# Goal/Objective/Strategy

**Goal:** *Enhance public safety by enforcing liquor and tobacco laws.*

**Objective:** Strengthen **partnerships with local government and citizen groups** to address community concerns about the alcohol licensing process.

**Strategy:** Identify potential problem areas and develop a set of procedures and support materials to help local government and citizen's groups in those communities communicate more effectively about liquor license issues and renewals.

**Background:** State law requires the WSLCB to notify cities and counties of all liquor license applications and renewals. Local community groups and citizens are not submitting timely comments and are not coordinating effectively with their city or county authority. Community input will be improved if citizens are informed and notified in a timely manner.

**Solution:** Improve communication tools to better educate local government entities and communities on how to provide timely, meaningful input on license applications and renewals. Streamline the notification process by using more efficient communication methods. Provide a database of relevant information. Develop a model for cities/counties and local communities to use when objecting to license issuance or renewals.

**Stakeholders:** Licensees, license applicants, community interest groups, cities/counties, schools, churches, health care providers and social service agencies.

**Partners:** DSHS, Washington Association of Cities, Washington Association of Counties, Superintendent of Public Instruction and local police departments.

**Lead Divisions:** Licensing and Regulation, Enforcement and Education and Policy, Legislative and Media Relations

**Participating Divisions:** Information Technology Services

**Start:** In progress
**Finish:** Ongoing

# Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Enhance public safety by enforcing liquor and tobacco laws.* |
| **Objective:** | Strengthen the **MIW Regulatory System.** |
| **Strategy:** | Implement new laws and rules; improve online service. |
| **Background:** | The number of non-retail licensees (importers, wineries, breweries and distributors) has increased 70 percent in the last eight years with no increase in MIW agents. Between 1996 and 2003 the number of non-retail licensees increased from 787 to 1,332. There are only four MIW license agents statewide to cover beer/wine label approval, price posting and licensing and licensee requests for assistance.<br><br>Licensees continue to request improved online price-posting services. Two laws passed by the 2004 Legislature will help strengthen this system: ESB 6737 and SSB 6655. One of these bills authorizes an increase in the Certificate of Approval (COA) license fee to cover the additional administrative costs of licensing an additional 1,000 importers. |
| **Solution:** | New field agents, new licensing agents and new information technology staff will be added along with equipment to meet the demands created by these additional licenses. |
| **Stakeholders:** | Elected officials, licensees, license applicants, employees, cities and counties |
| **Partners:** | Washington Wine Commission, Washington Brewers Guild, Washington Beer and Wine Wholesalers Association, National Association of Beverage Importers, Washington Food Industry and Washington Association of Neighborhood Stores |
| **Lead Divisions:** | Licensing and Regulation, Information Technology Services and Financial |
| **Participating Divisions:** | Human Resources and Policy, Legislative and Media Relations |
| **Start:**<br>**Finish:** | In progress<br>Ongoing |

Washington State
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# Enforcement and Education

### Overview

The Enforcement and Education Division employs 102 full- and part-time staff. About 90 percent of full-time staff are involved directly in enforcing Washington state laws governing the importation, manufacture, sale, distribution, possession and consumption of alcoholic beverages and tobacco. WSLCB liquor and tobacco tax officers carry out unannounced compliance checks, conduct interdictions of illegal tobacco shipments, conduct regular licensee site visits, consult with licensees and provide education assistance. They also work closely with local law enforcement agencies, the State Patrol and other government agencies.

### Increased Need for Enforcement

Growth in the number and types of licenses has increased the workload of enforcement officers substantially. The laws governing alcohol distribution and consumption also have grown more complex as the state attempts to improve its regulatory efforts. In 1994, the average assigned caseload was about 215 licensees per officer. That number had increased 28 percent to 276 liquor licensees per officer by 2003. In addition, each officer averages about 168 cigarette retailers.

### Recruitment/Retention Issues

The Enforcement and Education Division has pursued training and certification opportunities aggressively to help it meet the challenges accompanying growth in the number of licensed establishments. Because the agency has not been able to increase the number of field officers, it has focused on improving liquor enforcement officers' knowledge of alcohol and tobacco laws and on developing improved interpersonal skills for their work with licensees and the public.

Better-trained officers are capable of handling increasing workloads, enforcing increasingly complex laws, conducting more effective education programs and achieving increased levels of public safety. Nonetheless, the agency continues to experience excessive turnover in enforcement officers caused, in part, by salaries and benefits that are not competitive with those paid by other law enforcement agencies. Recruiting and retaining qualified officers is especially difficult in Seattle, where the cost of living is high and commute times long.

Senate Bill 6805, passed in 2002, authorized the WSLCB to send all new officers to the 720-hour Criminal Justice Training Commission (CJTC) program prior to starting enforcement activities. Recommended by a citizens review panel, this training has helped develop a more experienced and capable cadre of entry-level officers. Unfortunately, this training requirement is contributing to increased turnover. Unacceptable numbers of newly trained liquor enforcement officers are being lured away by much better-paying jobs with local law enforcement agencies.

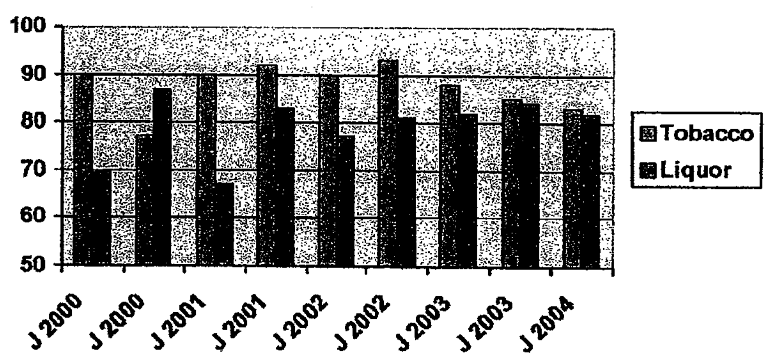
Last session, the agency sought approval for legislation granting its officers fully commissioned status. Fully commissioned liquor enforcement officers could make a greater contribution to public safety. The Legislature has not yet authorized full commissioning for LCB officers.

The Enforcement and Education Division and the WSLCB are committed, by policy, to recruiting, training, valuing and retaining a high-quality, diverse workforce. Non-competitive salaries make it difficult for the agency to attract applicants. WSLCB Human Resources and Enforcement staff will conduct a statewide effort to increase the number of diversity applicants for the job classification of Liquor Enforcement Officer. This active program will also be aimed at eliminating barriers to equal opportunity by supporting outreach programs to ensure equitable representation of minorities, women, persons of disability, Vietnam veterans and disabled veterans.

### Compliance Improvement

Monthly compliance checks are conducted under the supervision of liquor and tobacco enforcement officers with the assistance of under-age operatives, who attempt to purchase liquor or tobacco products from licensed retail outlets. Compliance checks are a highly effective enforcement tool. The division now requires its officers to complete at least 10 compliance alcohol compliance checks and five tobacco compliance checks per month.

**Alcohol and Tobacco Compliance Rates**
**January/June 2000-2004**



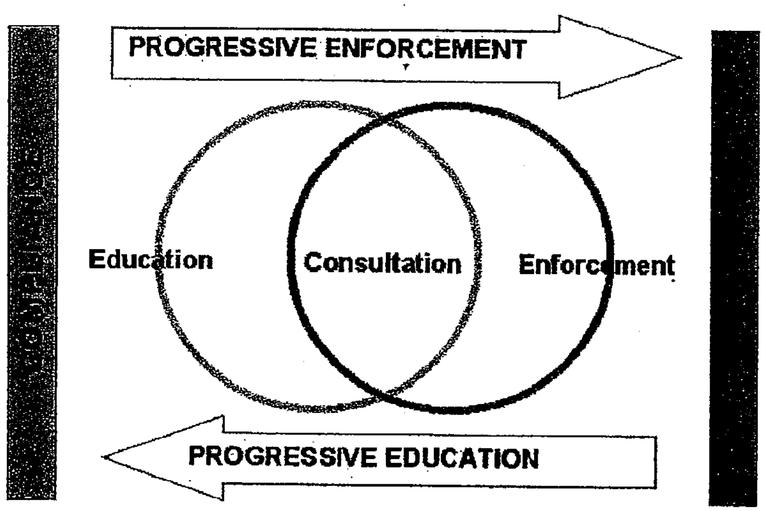

The chart above shows tobacco compliance rates well above liquor compliance rates, with liquor compliance rates improving during the last two years. The agency would like to increase the liquor and tobacco compliance rates to 95 percent by the end of this decade. Tobacco compliance rates have been historically higher than liquor compliance rates. This is attributable to the federal Synar law and a nationwide emphasis on reducing sale of tobacco to youth under age 18. Federal law requires states to maintain tobacco compliance rate of at least 80 percent. The statewide tobacco compliance rate was 87 percent in 2003. Illegal Internet sales have contributed to increased youth access.

**Community-Oriented Liquor and Tobacco Enforcement (COLTE)**
In addition to compliance checks, the Enforcement and Education Division also pursues a policy of Community-Oriented Liquor and Tobacco Enforcement (COLTE). The purpose of the COLTE program is to deter violations by including the community and its resources in the prevention effort. The goal of the community policing philosophy is voluntary compliance. Licensee education is the preferred tool to gain and maintain compliance. However, when compliance rates decrease, the division conducts increased levels of education and enforcement.

Since the COLTE program was begun, complaints filed against liquor and tobacco enforcement officers by licensees have dropped 50 percent. A DUI Reduction Program involving liquor enforcement officers and local law enforcement significantly reduced the numbers of intoxicated drivers leaving targeted establishments.

The following diagram shows how the COLTE program works.

**EDUCATION & ENFORCEMENT DIVISION**
**Community Policing Philosophy**



### Tobacco Tax Enforcement

Tobacco taxes are an important source of revenue for the state. In 2003, taxes for all tobacco-related products exceeded $422 million. The Department of Revenue (DOR) estimates that tobacco tax evasion costs the State of Washington $109 million annually. In 1997 the WSLCB was given the responsibility to enforce the state's tobacco tax laws. Fourteen enforcement officers carry out this responsibility statewide under the direction of a program manager and with the support of two non-commissioned FTEs. Tobacco tax agents have been increasingly successful interdicting illegal (untaxed) shipments of cigarettes and tobacco products into the state.

- More than 16,600 cartons of cigarettes were seized following a minor traffic accident involving a rental truck. The cigarettes were auctioned for $119,000 and an additional $237,633 in cigarette taxes were paid by the wholesaler making the purchase – a total of more than $355,000 recovered for the state.
- Nearly 2,360 cartons of cigarettes were seized in November 2003, following a lengthy surveillance between a South Puget Sound Smoke Shop and the source of the contraband in Northern Idaho. That load was auctioned for $24,000.
- A recent court decision upheld the state's right to recover tax from individuals who purchased cigarettes from online sites and efforts are under way through the WSLCB and DOR to collect these revenues.

### Education Mission

The division also carries out a Youth Alcohol and Education program to reduce under-age drinking, high-risk drinking behavior and over-consumption. This program operates under the guidance of the State Coalition to Reduce Underage Drinking (RUAD). A second program to reduce youth access to tobacco is carried out with DOH, health districts, tobacco coalitions and local law enforcement agencies. This effort includes licensee education, premise inspections, compliance checks and enforcement actions.

### Other Important Enforcement and Education Efforts

- DUI Tracking System
- Keg Registration
- Voluntary License Education
- Party Patrol
- Alcohol Awareness Materials

### Conclusion

Enforcement and education activities have been proven repeatedly to be the most effective way to reduce sale to minors and over-service. A substantial increase in the number and types of licensed establishments has extended the scope of enforcement activity. Additional enforcement officers are needed to meet rising public expectations about alcohol safety, to conduct compliance checks with the rapidly growing licensee base and to help local communities develop improved safety programs. Additional training and certification programs also are needed.

# Goal, Objective, Strategy

| | |
|---|---|
| **Goal:** | *Recruit, develop, retain and value a high-quality, diverse workforce.* |
| **Objective:** | **Upgrade liquor enforcement officer training** to meet state law enforcement training standards. |
| **Strategy:** | Obtain law enforcement accreditation through the Commission on Accreditation for Law Enforcement Agencies (CALEA) by sending officers to the Basic Law Enforcement Academy (BLEA) provided by the Washington State Criminal Justice Training Commission (CJTC). |
| **Background:** | A Governor-appointed Citizen Review Panel found that LCB training for Liquor and Tobacco Enforcement Officers (220 hours) was inadequate and did not meet state training standard of 720 hours. The panel also concluded that inadequate training was negatively impacting the delivery of service. LCB is ineligible for accreditation until training for all officers meets the state standard set by the Criminal Justice Training Commission. |
| **Solution:** | Provide liquor and tobacco enforcement officers with the 720-hour *Basic Law Enforcement Academy Course* through the Criminal Justice Training Commission. |
| **Stakeholders:** | Washington citizens, licensees, law enforcement agencies, the Criminal Justice Training Commission, liquor and tobacco enforcement officers, Washington Restaurant Association, Korean American Grocers Association, LCB Business Advisory Council, cities and counties and other agencies/organizations that deal with the impact of alcohol in their communities |
| **Partners:** | CJTC and law enforcement agencies |
| **Lead Division:** | Enforcement and Education |
| **Participating Divisions:** | Licensing and Regulation, Human Resources, Financial and Policy, Legislative and Media Relations |
| **Start:** | In progress |
| **Finish:** | June 2011 |



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# Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Educate the public about the WSLCB mission and contributions to the community.* |
| **Objective:** | Increase **voluntary compliance** to alcohol and tobacco regulations. |
| **Strategy:** | Implement Community Oriented Liquor and Tobacco Enforcement. |
| **Background:** | The 1999 Governor-appointed Citizen Review Panel recommended implementation of community-oriented policing. In 2000, the WSLCB implemented Community Oriented Liquor and Tobacco Enforcement (COLTE). |
| **Solution:** | Promote voluntary compliance through licensee training. Develop compliance enabling techniques and materials. Utilize the SARA problem-solving model to resolve community-licensee conflicts whenever possible. |
| **Stakeholders:** | Washington citizens, licensees, law enforcement agencies, Washington Restaurant Association, Korean American Grocers Association, LCB Business Advisory Council, cities and counties, and other agencies/organizations that deal with the impact of alcohol in their communities |
| **Partners:** | Law enforcement agencies, communities, licensees and DSHS Division of Alcohol and Substance Abuse |
| **Lead Divisions:** | Enforcement and Education |
| **Participating Divisions:** | Licensing and Regulation |
| **Start:** | In progress |
| **Finish:** | Ongoing |

# Goal/Objective/Strategy

**Goal:** *Enhance public safety by enforcing liquor and tobacco laws*

**Objective:** **Improve supervisory and managerial controls.**

**Strategy:** Obtain law enforcement accreditation through the Commission on Accreditation for Law Enforcement Agencies (CALEA).

**Background:** National accreditation will ensure that Enforcement Division policies, procedures and management controls meet or exceed nationally recognized law enforcement standards and best practices. Accreditation will also strengthen risk management programs and reduce agency liability.

**Solution:** Revise Enforcement Division Policy and Procedure Manual to ensure compliance with appropriate CALEA standards.

**Stakeholders:** Internal Enforcement staff and OFM

**Partners:** Criminal Justice Training Commission and law enforcement agencies

**Lead Division:** Enforcement and Education

**Participating Divisions:** Policy, Legislative and Media Relations

**Start:** In progress
**Finish:** June 2011

# Goal/Objective/Strategy

**Goal:** *Enhance public safety by enforcing liquor and tobacco laws*

**Objective:** **Reduce underage access** to alcohol and tobacco.

**Strategy:** Increase compliance rates for youth access to alcohol and tobacco.

**Background:** Compliance checks are a proven, effective method of decreasing sales to minors. As the number of compliance checks increases, compliance rates rise (and vice versa). Compliance checks using minor operatives are quick and effective enforcement tools when used in combination with licensee and youth education efforts.

**Solution:** Conduct alcohol and tobacco compliance checks, conduct technical assistance visits with licensees and participate in underage emphasis patrols (party patrols, keg busters).

**Stakeholders:** Citizens of the state, public schools, liquor and tobacco licensees and community organizations

**Partners:** DASA, DOH, Office of Juvenile Justice Delinquency Prevention, RUAD Communities and local law enforcement agencies

**Lead Division:** Enforcement and Education

**Participating Divisions:** Licensing and Regulation

**Start:** In progress
**Finish:** June 2011

# Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Educate the public about the WSLCB mission and contributions to the community* |
| **Objective:** | **Raise awareness** among children, parents and the general public **about the health and social costs of alcohol abuse** with the intent of reducing the problems associated with alcohol abuse on a statewide basis. |
| **Strategy:** | Enlist the assistance of a *Prevention Advisory Council* to develop new programs and services in support of the Board's legislative mandate to provide statewide alcohol abuse education programs. Partner with local communities, schools and colleges/universities, law enforcement and industry. |
| **Background:** | The Board, administrative director and PLMR conducted an 18-month study of alcohol abuse education efforts in Washington. Information was sought from key stakeholder groups through a survey, during board work sessions with state and national professional organizations. Gaps in the statewide effort were identified. |
| **Solution:** | Recruit *Prevention Advisory Council* members from interested stakeholder groups, hire an education coordinator to help guide and support the efforts of the PAC, create up to two initial pilot projects, implement and track successes, develop additional programs with the assistance of the PAC. |
| **Stakeholders:** | Governor's Council on Substance Abuse (GCSA), DSHS, criminal justice system, public education, cities/counties, licensees, industry partners, community interest groups and elected officials |
| **Partners:** | GCSA, DASA, State Patrol, Superintendent of Public Instruction and industry partners |
| **Lead Division:** | Policy, Legislative and Media Relations |
| **Participating Divisions:** | All divisions |
| **Start:** | June 2004 |
| **Finish:** | Ongoing |

## Washington State
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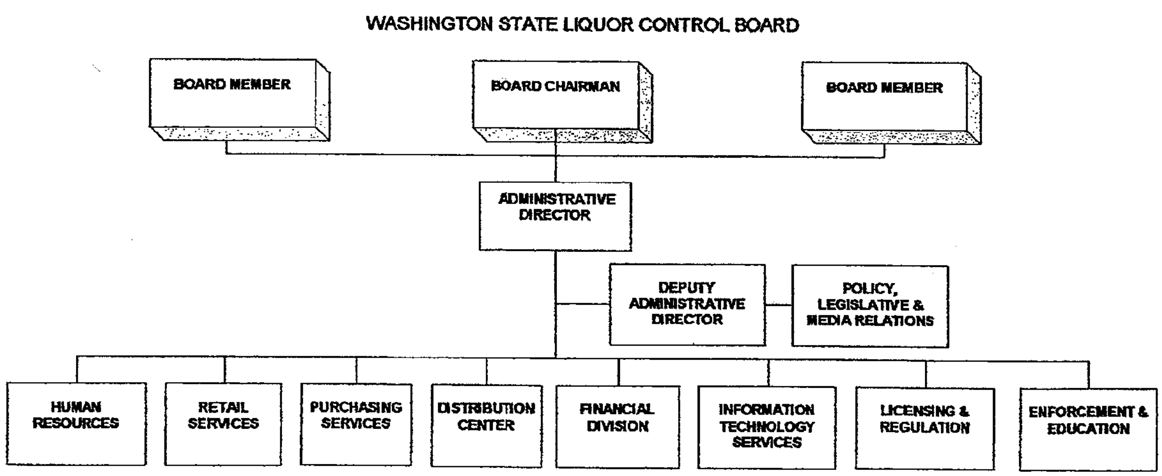
# Administrative Support

Several divisions provide administrative support for the entire agency, enabling the wholesale and retail operation, licensing and enforcement to carry out the balanced mission of revenue generation and public safety. These divisions are:

- **Human Resources**
- **Information Technology Services**
- **Financial**
- **Policy, Legislative and Media Relations**

Human Information Technology Services, Financial and Policy, Legislative and Media Relations provide centralized support to the agency's front-line divisions. Consequently, the goals, objectives and strategies provided in this section of the Strategic Plan are of great importance in building an adequate foundation to support growth.

Some of the attached objectives and strategies overlap, to a small degree, with objectives listed in the previous three sections. Investments in Core Technology capability, for example, could be seen as benefiting all of the other technology proposals in the plan.



# Goal/Objective/Strategy

| | |
|---|---|
| **Goals:** | *Goals 1-5 are supported by the following objective/strategy.* |
| **Objective:** | Implement a phased **improvement of Core Technology capability.** |
| **Strategy:** | Identify and invest in proven business practices and systems. Deliver effective technology services and protect public resources. |
| **Background:** | The retail and wholesale business operation must be able to collect, store, retrieve, analyze and distribute key sets of data to operate successfully. Access to this data is needed in real time to permit the agency to make informed decisions in response to changes in the marketplace. Similar capabilities are needed to support licensing, enforcement and administration. The agency's business information system is 30 years out of date. It was not designed to support a $600 million annual retail operation.<br><br>The agency's customers and stakeholders expect *continually improving* services – including faster transactions, online access to business information, easier exchange of information and quicker responses to inquiries through the use of current technology – rather than *merely sustaining* retail and public safety services. |
| **Solution:** | Establish enterprise-level policies, strategies and methods for the design and installation of a new business system to include full system development, maintenance, security and support. Meet statewide and agency business requirements by planning and implementing technology, processes and resources supporting established standards. |
| **Stakeholders:** | Customers, licensees, the public, elected officials, industry partners, staff, employees and state agencies |
| **Partners:** | DIS, OFM, DOL and the State Patrol |
| **Lead Division:** | Information Technology Services |
| **Participating Divisions:** | All divisions |
| **Start:**<br>**Finish:** | In progress<br>Ongoing |

# Goal/Objective/Strategy

| | |
|---|---|
| **Goals:** | *Goals 1-5 are supported by the following objective/strategy.* |
| **Objective:** | **Secure, Dedicated, Centralized Training Resources** |
| **Strategy:** | Develop, implement and sustain an agency-wide employee training program. |
| **Background:** | Agency employees and administrators have identified training as a top priority. Historically, training efforts have been 'start and stop.' Changes in leadership, loss of a centralized training manager position, cuts to the training budget and shifts in agency priorities all have contributed to the current poor state of training.<br><br>Certain training is mandated by statute, executive order, collective bargaining agreement and policy. Fulfilling these training requirements will lower the agency's risk level and reduce time spent on tort claims, lawsuits, and disciplinary actions.<br><br>It has been especially difficult to provide training to geographically dispersed employees. Continuing training for field staff, including retail and enforcement employees, is needed to meet the goals of the agency's balanced mission. |
| **Solution:** | Dedicate resources for centralized agency-wide training activities in the Human Resources Division. Develop an agency-wide training program for required, relevant training; assist other divisions in providing necessary training; track, monitor and report training; coordinate in-house training; provide career path counseling; and arrange for external training. |
| **Stakeholders:** | WSLCB employees, bargaining units, customers, licensees, the public, elected officials, Governor's Office, Legislature, OFM, industry representatives and special interest groups |
| **Partners:** | LCB bargaining units |
| **Lead Division:** | Human Resources |
| **Participating Divisions:** | All divisions |
| **Start:** | In progress |
| **Finish:** | June 30, 2007 |

## Goal/Objective/Strategy

| | |
|---|---|
| **Goals:** | *Goals 1-5 are supported by the following objective/strategy.* |
| **Objective:** | **Create a Performance-Based Culture** |
| **Strategy:** | Implement Washington Works. |
| **Background:** | The Personnel System Reform Act of 2002 represents the biggest change to civil service in 40 years. This legislation overhauls civil service, expands collective bargaining, and allows competitive contracting. Washington Works refers to the coordinated effort of implementing these three aspects of the Reform Act. Civil service reform refers primarily to streamlined civil service rules, a new human resources management system (HRMS), and the move to performance management. The Departments of Personnel (DOP) and General Administration (GA) are leading the majority of Washington Works, and determine most timeframes for compliance. However, agencies are responsible for implementing performance management. Agencies must demonstrate to DOP that they are sufficiently prepared to switch to performance-based pay. |
| **Solution:** | Ensure LCB leadership understands and adequately prepares for the changes, including infrastructure and systems. Assign lead staff for implementation of key provisions. Develop and implement communications plan that provides accurate and timely information to agency staff. Develop and implement transition and training plan for civil service reform. |
| **Stakeholders:** | LCB employees, DOP, OFM, GA, labor organizations and AGO |
| **Partners:** | DOP and GA |
| **Lead Division:** | Human Resources |
| **Participating Divisions:** | All divisions |
| **Start:** | In progress |
| **Finish:** | June 30, 2007 |

# Goal/Objective/Strategy

| | |
|---|---|
| **Goals:** | *Goals 1-5 are supported by the following objective/strategy.* |
| **Objective:** | Increase **public, employee and stakeholder understanding of and support for the WSLCB.** |
| **Strategy:** | Develop and implement a comprehensive communication plan. |
| **Background:** | To achieve rapid progress, the WSLCB needs the full support of its employees, its customers, stakeholders, elected officials and the public. Better-informed constituents make better advocates. The agency has lacked a comprehensive set of tools and a strategy to communicate more effectively with these important constituent groups. The agency has a strong story to tell. It needs to articulate that story and deliver it more effectively. This will earn greater support for the agency and will increase its ability to raise higher levels of revenue for the state and increase public safety. |
| **Solution:** | Develop a set of communication strategies and target key constituent groups with key agency messages; create effective two-way communication processes to maximize feedback and involvement; improve agency internal communication; and create a consistent, high-quality visual identity for the agency. |
| **Stakeholders:** | Customers, legislators, industry partners, news media; community interest groups, employees, unions, state agencies, criminal justice system, licensees, cities/counties, schools, health care providers and social service agencies. |
| **Partners:** | Other state communication offices |
| **Lead Division:** | Policy, Legislative and Media Relations |
| **Participating Divisions:** | All divisions |
| **Start:** | In progress |
| **Finish:** | June 2005 |

# Goal/Objective/Strategy

| | |
|---|---|
| **Goals:** | *Goals 1-5 are supported by the following objective/strategy.* |
| **Objective:** | **Policy development and regulatory improvement.** |
| **Strategy:** | Develop fair, useable, consistent rules and policies to support the agency's balanced mission. |
| **Background:** | The agency is in the process of developing a comprehensive set of policies to guide its operations. Policies for key administrative support functions like Human Resources, Risk Management, Accounting and many other critical functions did not exist, were severely outdated or were not applicable agency-wide. New policy development was a top priority of a Comprehensive Management Review undertaken in 2002-2003. |
| **Solution:** | Continue to conduct a rigorous assessment of existing policies and continue with a division-by-division strategy to develop new policies. A temporary Policy Coordinator is helping agency personnel in each division conduct assessments of current policies and guide the staff in conceiving, writing and recommending new policies using a set of best practices. |
| **Stakeholders:** | Employees, customers, licensees, industry stakeholders, elected officials, other state agencies, local government and the public. |
| **Partners:** | GA, OFM, DOP and other state agencies |
| **Lead Division:** | Policy, Legislative and Media Relations |
| **Participating Divisions:** | All divisions |
| **Start:** | In progress |
| **Finish:** | Ongoing |

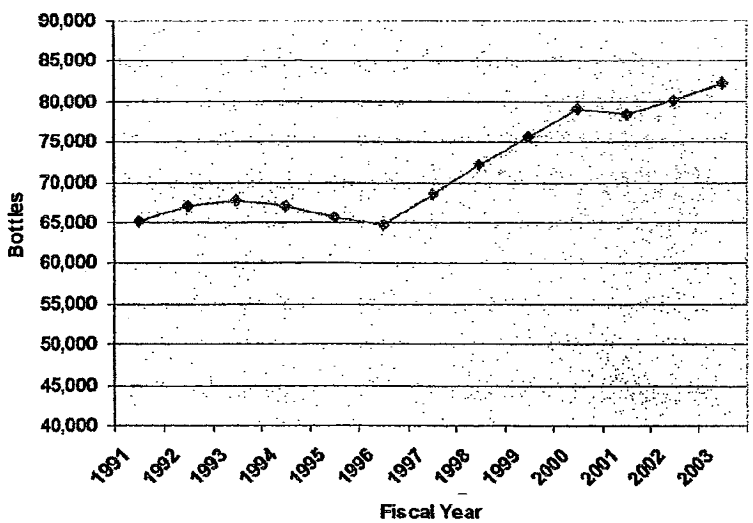
# Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Maximize revenues to the citizens of Washington* |
| **Objective:** | **Reduce WSLCB risk-related losses.** |
| **Strategy:** | Continue to develop and strengthen an agency-wide risk management program. |
| **Background:** | The agency's new risk awareness program has reduced losses during the last two years. However, unacceptable levels of exposure continue in the areas of tort claims, human resource practices and job-related injuries.<br><br>L&I claims related to in-store job injuries have increased. Insurance premiums for certain job classifications also have increased, especially those for enforcement officers and warehouse workers. If these and other key areas of loss are addressed proactively and aggressively, the agency can achieve even greater reduction in its overall risk exposure. |
| **Solution:** | The Financial Division will continue to develop and implement a risk management program to reduce tort losses; improve human resource risk management practices; and reduce job-related injury claims. These areas will be addressed through a combination of monitoring, risk awareness education and by establishing policies and procedures to limit risk exposure. |
| **Stakeholders:** | LCB employees, the public, Governor's Office, Organized Labor, Washington Industrial Safety and Health Act and Occupation Safety and Health Act personnel. |
| **Partners:** | OFM – Risk Management, Office of Attorney General, Labor & Industries Department of Personnel Finance Division and Human Resources. |
| **Lead Divisions:** | Finance, Human Resources and WSLCB Safety Office |
| **Participating Divisions:** | All divisions |
| **Start:** | In progress |
| **Finish:** | Ongoing |

# Goal/Objective/Strategy

| | |
|---|---|
| **Goal:** | *Modernize existing business systems and improve service delivery.* |
| **Objective:** | **Improve customer service; store communications** |
| **Strategy:** | *A Wide Area Network (WAN)* is needed to improve customer service, support retail accounting and inventory processes, strengthen core financial operations and increase the effectiveness of organizational communication. |
| **Background:** | The 160 state stores are connected to the agency's main computer system via antiquated dial-up modems. To conduct business over this system, many stores must use their sole phone line, which reduces their ability to communicate with customers, suppliers and agency staff. The processing delays associated with this system result in thousands of customer complaints annually. The lack of system capacity also limits its ability as a communication and training tool. |
| **Solution:** | Funding is needed for a Wide Area Network. Installing a WAN will require infrastructure improvements in the stores. Upgraded computing and networking equipment in IT also is needed to conform to state security policies. |
| **Stakeholders:** | Retail customers, Governor's Office, Legislature, OFM and DOP |
| **Partners:** | Department of Information Services |
| **Lead Divisions:** | Information Technology Services and Retail Services |
| **Participating Divisions:** | Enforcement and Education, Finance and Human Resources |
| **Start:** | October 2003 |
| **Finish:** | June 2008 |

Bottle Sales Per Retail FTE




Population growth provides an opportunity for revenue growth and a responsibility to meet un-stimulated demand. The 1999 Deloitte & Touche Retail Business Plan reported that the number of Washington State liquor outlets per 100,000 people was significantly lower than the U.S. average, and lower than the average in most other control states. Population growth is particularly problematic in the higher-growth counties. The following table displays some areas that appear to be under-served.

**Projected Population Growth –Top Ten Counties in Washington State**

| | State Stores | Contract Stores | Total Liquor Stores 2004 | 2005 Population | Population per Store 2005 | 2010 Population | Population per Store 2010 (if no new stores) | Persons per Sq. Mile(2000) |
|---|---|---|---|---|---|---|---|---|
| King | 58 | 7 | 65 | 1,851,128 | 28,479 | 1,961,538 | 30,178 | 817 |
| Snohomish | 16 | 4 | 20 | 699,238 | 34,962 | 781,806 | 39,090 | 290 |
| Pierce | 19 | 10 | 29 | 791,400 | 27,290 | 856,004 | 29,517 | 418 |
| Clark | 5 | 6 | 11 | 413,273 | 37,570 | 465,996 | 42,363 | 550 |
| Spokane | 9 | 12 | 21 | 469,958 | 22,379 | 509,327 | 24,254 | 237 |
| Thurston | 4 | 4 | 8 | 255,703 | 31,963 | 287,919 | 35,990 | 285 |
| Kitsap | 6 | 2 | 8 | 277,242 | 34,655 | 306,960 | 38,370 | 586 |
| Whatcom | 5 | 6 | 11 | 194,449 | 17,677 | 217,009 | 19,728 | 79 |
| Yakima | 3 | 7 | 10 | 237,411 | 23,741 | 255,599 | 25,560 | 52 |
| Benton | 3 | 2 | 5 | 164,553 | 32,911 | 180,423 | 36,085 | 84 |
| Skagit | 4 | 4 | 8 | 121,451 | 15,181 | 137,054 | 17,132 | 59 |
| Cowlitz | 3 | 3 | 6 | 108,369 | 18,062 | 122,416 | 20,403 | 82 |

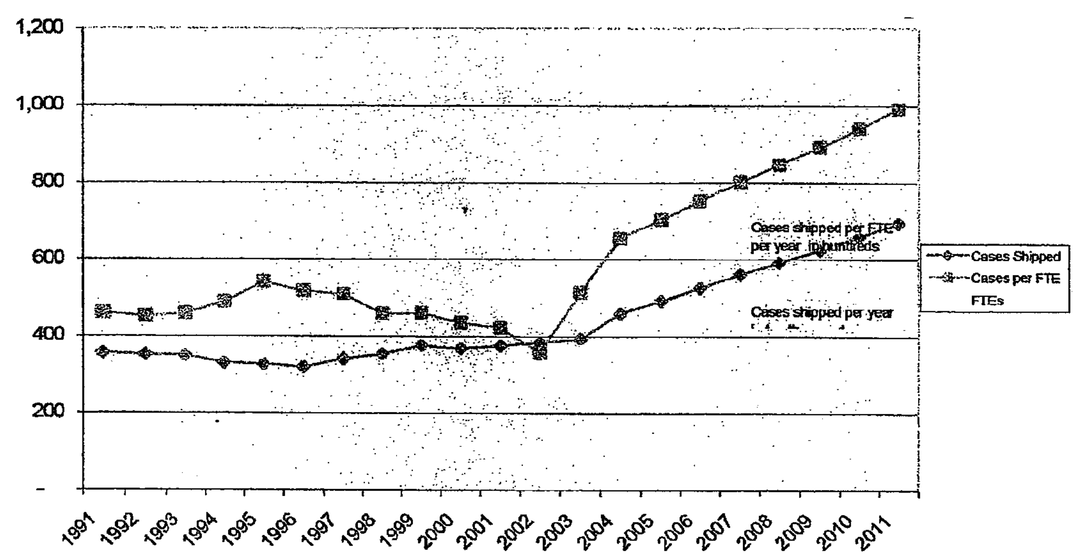
Note: Contract Stores generally serve rural populations.

## Distribution Strategy

The WSLCB distributes spirits and wine to its more than 310 state and contract stores from a central warehouse in Seattle, Washington. Designed for a maximum daily shipping volume of 17,500 cases, the warehouse is nearing its capacity during peak shipping periods. Shipping volumes are expected to exceed capacity by FY 2005, outstripping both equipment and labor resources. The chart below shows the trend in cases shipped with projections to 2011.

It is important to note in viewing the chart below that the number of FTEs for Fiscal Years 1998-2002 are higher than the other years because during this period the new Distribution Center was being constructed and the agency was actually operating two separate warehouses. If these years are not included, the number of FTEs have either declined or remained constant while the number of cases shipped has continued to increase.

**CASES SHIPPED VERSUS FTEs 1991-2011**



## How WSLCB's Performance Ranks

Other LCB results favorably compare to the private liquor industry and other private retail operations in a number of categories, as the following chart indicates.

| SAME OR BETTER | INDUSTRY COMPARISONS |
|---|---|
| ✓ | Washington ranked third among all control states in FY 2003 in sales and revenue contributions. |
| ✓ | Average per-store net income was 8.8 percent in FY 2002. Private liquor stores report averages of between 2.1 to 2.8 percent.[1] |
| ✓ | Sales per FTE of $664,000 (2002) were higher than other control states and much greater than many retail businesses. Private liquor stores report sales of $174,000 per person.[2] |
| ✓ | LCB's inventory turns were 10.4 in FY 2004 compared to industry averages of 6.3 to 7.7 for private liquor stores.[3] |
| ✓ | Order fill rates match the industry average of 95 percent.[4] |
| ✓ | Average per-square-foot sales in state stores of $606 (2002) exceed many retail businesses. For example, Wal-Mart is $422, Costco is $771, and Safeway is $443.[5] |

Retail Services management continues to develop ways to improve profitability and create efficiencies while providing high-quality customer service. The Washington State University Customer Survey completed in 1999 showed this goal is being met, as overall customer satisfaction with state liquor stores ranked high. Specific questions about customer service, product availability, location, convenience, and safety all scored consistently high.

## Rising Profits/Tax Collections

Consistent with sales growth, there also has been growth in the amount of taxes collected and profits generated and distributed to the state general fund, local governments, and health care funds. Between 1994 and 2003, there was a 37 percent increase in distribution. The chart below shows the taxes and revenue distribution for Fiscal Years 1994 through 2003.

[1] Bizstats.com/liquor.htm
[2] Ibid.
[3] Ibid.
[4] Deloitte & Touche, LLP, *Washington State Liquor Control Board, Retail Business Plan Final Report*, December 1999
[5] Ibid.

**DISTRIBUTION OF REVENUE (Millions of $)**

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2002 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cities | 27.0 | 25.7 | 25.5 | 26.2 | 30.3 | 31.0 | 29.6 | 33.0 | 34.0 | 35.7 |
| Counties | 6.8 | 6.4 | 6.4 | 6.6 | 7.2 | 7.4 | 7.1 | 8.2 | 8.5 | 9.0 |
| State | 99.9 | 96.8 | 95.9 | 98.5 | 100.7 | 101.7 | 107.9 | 113.9 | 117.1 | 121.6 |
| Border Cities and Counties | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| DSHS | 4.7 | 5.2 | 5.4 | 5.4 | 5.2 | 5.3 | 5.3 | 5.6 | 5.8 | 6.1 |
| SPI | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Drug Enforcement | 11.4 | 9.9 | 9.7 | 9.6 | 10.1 | 11.8 | 10.4 | 10.2 | 10.7 | 11.0 |
| Health Care | 11.8 | 11.6 | 20.3 | 20.7 | 29.2 | 37.6 | 35.8 | 35.3 | 37.6 | 38.7 |
| Universities | 0.7 | 0.8 | 0.8 | 0.9 | 0.8 | 0.9 | 0.7 | 0.6 | 0.8 | 0.8 |
| Rapid Transit | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| Wine Commission | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.5 | 0.5 | 0.5 | 0.4 |
| Youth Tobacco Prevention | | | | | | | | | 0.1 | 0.1 |
| WSP Toxicology | | | | | | | | | 0.2 | 0.2 |
| Total | 163.0 | 157.1 | 164.7 | 168.5 | 184.2 | 196.5 | 197.9 | 207.9 | 215.9 | 224.4 |

**Note: For Tax Distribution for Cities and Counties, see Appendix.**

## The Opportunities

Changes in the liquor industry and in market trends provide Retail Services number of opportunities.

- The LCB's new Strategic Plan and Retail Services Business Plan will provide solid direction for the agency's retail operations.
- Partnering with key stakeholders, as was done with the shelf reset program, can yield additional revenue with minimal cost.
- The LCB buys the majority of its product as bailment inventory, which means the product is not paid for until it is shipped from the Distribution Center.
- The Bailment system allows expansion of inventory in the distribution center to support store growth without additional investment in inventory.

The LCB's new Strategic Plan and Retail Services Business Plan will provide solid direction for the agency's retail operations.

- Newly installed point-of-sale equipment will provide a strong foundation to improve customer service and sales.

- Improvements in employee safety, employee recognition, and inventory management are planned.

- Growth in the drinking-age population provides opportunities for additional revenue.

- The LCB has a monopoly on spirit sales in the state.

- The new LCB management team is focused on making the Retail Services operation a leader in the industry, and to continually evaluate and review opportunities for new improvements. Areas being focused on include:
  - Developing performance standards for stores;
  - Using transaction data to develop, purchase, merchandise, monitor and ship product more efficiently;
  - Developing store location and leasing strategies using best business practices;
  - Hiring people with the skills needed to implement the business plan; and
  - Creating management tools, reporting mechanisms and risk management processes.

## The Challenges

While the LCB has many opportunities to build on, there are also significant constraints that limit the potential of the Retail Services operations. These include, but are not limited to, the following:

- Increased sales volumes coupled with no store employee FTE increases have left the WSLCB unable to spare the time needed for store employee training.

- Training store employees carries a double cost in salaries and benefits as additional staffing must be provided to continue operations uninterrupted.

- The management ratio in the Retail Division is 12 WMS positions for 700 people. Consequently, management resources are stretched.

- There is not a funding process permitting reinvestment of revenue into the business, as would take place in an enterprise organization or private business.

- The agency is operating with outdated technology.

- Store employees frequently work alone in stores, increasing risk to their personal safety.

- A change in organizational culture must occur before best business practices can be fully integrated.

- The LCB has marketing and advertising limitations unlike other businesses.

- The Legislative appropriation process impedes the agency's ability to make needed investments and respond to changing market conditions in a timely manner.
- The Distribution Center is operating at or near peak capacity during high-volume sales periods. In two years, the DC will not be able to handle peak loads. The cost of labor to maintain the material management system is increasing.

## The Future

The LCB's Retail Services is looking forward to continuing to create systems, efficiencies, and programs as a standard bearer in the industry. Specific plans for how this will be accomplished are outlined in this business plan. This plan will be reviewed and, as appropriate, revised as more information is available or as environmental conditions change.

# CHAPTER 3: OPERATIONS

## Overview

The retail and wholesale operation provides an important revenue source for the state. In FY 04 more than $600 million in annual gross sales, licensing fees and producer taxes will be collected. More than 40 percent of that amount ($245 million) will be returned to the state, cities and counties. This distribution is made *after* the cost to operate the agency has been deducted.

**More than 40 percent of $600 million in revenue collected in FY 04 will be returned to the state, cities and counties.**

The state is the sole wholesaler and retailer of spirits through its state and contract liquor stores. Beer and wine are sold under a "three-tiered" system designed to create a stable market and discourage over-consumption. Under this system, producers sell to distributors who then sell to retailers at a mandatory 10 percent markup. All restaurants, clubs and businesses licensed to sell liquor by the drink must obtain their spirits through one of the 161 state stores. All packaged liquor sold at retail must be dispensed through a state or contract store.

Retail Services, Purchasing Services, and the Distribution Center have 690 budgeted FTEs. As stated in Chapter 2, the collective efforts of these divisions produce results that meet or exceed some private industry and other control state system results. There are a number of reasons for this success, including:

- A monopoly on spirit sales
- Seasoned employees that are experts in the industry
- A bailment inventory system that allows the agency's Distribution Center to hold a large percentage of its inventory and not pay for product until it is shipped out to stores
- The amount of taxes collected on sales
- Good relationships with stakeholders and suppliers
- Centralized distribution system
- Lean staffing at state-operated stores
- Commission formula for contract stores
- The margins and large-scale of the operations

Consistent with the agency's strategic goals, management continues to look for ways to increase the bottom line while maintaining high-quality customer service. In preparing this plan, teams of agency employees were asked to look for opportunities to improve business operations in the following areas:

1. Create revenue enhancement opportunities and best practices in retail operations by identifying sales growth opportunities, expense savings opportunities, or some combination of both for retail operations.

2. Create revenue enhancement opportunities and best practices in wholesale operations by identifying sales growth opportunities, expense savings opportunities, or some combination of both for wholesale operations.

3. Improve distribution and purchasing, with particular emphasis on how to favorably impact the Cost of Goods Sold.

4. Improve customer service and store presentation, with emphasis on in-store merchandising, design strategies and employee training programs.

5. Improve management tools and technology, with employees identifying management systems, reporting, quality control or corrective action tools for system improvements.

This business plan incorporates the best ideas and opportunities developed through the collective efforts of LCB staff, stakeholders, and other experts in the industry.

## Retail Operations

A continuing key goal is to maximize revenues by operating more like a successful business. The revenue earned through improved retail and wholesale operations helps provide a stable base for the agency to carry out its public safety mission. Improving retail sales totals while maintaining high customer service requires a focus on basic best business practices. This represents a change in orientation for store employees, who have operated without a central planning model. Basic information needed to make many decisions and evaluate the profitability of individual stores has not been available. Retailing management expertise has been lacking.

Last biennium, a new management team came on board and began exploring ways to improve retail and wholesale performance. Many improvements have been made, but many more changes are needed to create a model wholesale/retail operation.

Based on recommendations by employee committees and intensive study by management staff, the following recommendations have the greatest potential to effect improved revenues.

1. **Relocate Six Under-Producing Stores**

There are many variables to consider in making store relocations, such as the net impact such decisions have on total sales, customer service and aggregate profitability. The following steps will be taken in making these decisions:

- Establish location performance standards for state-operated and contract stores.
- Conduct a review of all stores using these standards.
- Implement relocation strategies to improve performance at the least-profitable stores.

An example of a performance evaluation standard for a state store follows:

**Revenue Return Ratio**

Revenue generated by stores comes from taxes and markup assessed on each bottle sold. One way to gauge the success of a store is measure the store's aggregate sales against taxes collected, as shown in the diagram below.

$$\frac{\text{Taxes collected plus net profit or minus losses}}{\text{Sales for reporting period}} \quad \textit{(divided by)}$$

The resulting ratio is an indicator of a store's revenue generation. A 25 percent return is suggested as a minimum threshold, with some consideration given to a store that has disproportionate wholesale sales volume.

An additional performance indicator could be employed to help stores achieving only the minimum 25 percent return improve:

- Average sales per square foot: A minimum for review would be $350 of sales per square foot. A next step would be to determine what could be done to increase this sales rate to at least $400 per square foot via training or corrective action.

- Sales to FTE ratio: A minimum for review would be the average store's sales divided by the FTE count. If this minimum is not met, determine what could be done to increase sales per FTE via training, merchandising or other action.

- Proximity to other state-operated or contract outlets and net revenue impact: Determine if any other stores are within a five- to 10-mile radius of the store under review, with consideration given to whether it is in an urban or rural location and accessibility to licensee accounts. Assuming stores within five to 10 miles of a closed store will absorb a portion of the closed store's business, estimate the net revenue loss of the closure.

The strategy for relocations is to identify high-traffic locations that have similar customer demographics that would result in higher sales and revenue return. An example would be moving into existing locations next to grocery stores, or a mall where a grocery store is an anchor tenant.

The goal in this process is to make thoughtful decisions regarding what action(s) are most appropriate to take of all the stores in aggregate, with the end goal to maximize revenues and improve customer satisfaction.

2. **Open Additional Retail Stores**
The market trend data presented in Chapter 2 indicates there are opportunities to selectively expand by opening new stores, particularly in the state's highest-growth areas. As the data indicates, fewer stores are serving more people per capita than ever. In some areas, store capacity is stretched thin, particularly during peak buying periods. To meet this additional demand and to capitalize on growth niches, three new stores and two new concept stores are proposed for the 2005-2007 biennium.

3. **Expand Store Personnel Training Program**
The WSLCB must rely on in-store merchandising to market its products. One of the most direct ways and key to the agency's business strategy is to improve store merchandising, improve product knowledge, customer service and merchandising display skills of store employees through training.

4. **FTE / Production Formula**
If new stores are not opened and FTE's not increased in our current retail outlets, each store will continue to serve increasing numbers of customers. This means the same number of employees per store will be tasked with selling an increasing amount of inventory. This will result in declining customer service and decreasing revenue.

The following primary considerations will have a negative impact on our agency, customers and stakeholders:

- **Maximizing revenue potential.** Due to insufficient hours of operation and declining levels of service, the agency's maximum revenue-generating potential may not be reached.
- **Managed growth and future potential is diminished** by not responsibly re-investing in the enterprise. The agency is capable of giving a most favorable return on investment as proven by past performance. Given this, the return on investment carried long-term will substantially out-perform other options given to government today.
- **Increased risk to employees, customers and assets.** With inadequate staffing in stores, employees may not be able to address potential safety and security needs.

5. **Pursue Reinvestment Funding Strategies**
Working within the context of appropriated funding restricts management's ability to respond to market changes quickly and invest or re-invest resources as needed to maximize revenues to the state.

6. **Install a Wide Area Network (WAN)**
Stores currently have only a dial-up connection for credit/debit card authorizations, email, intranet access, payroll processing, lottery scratch ticket verification, and security monitoring. Dial up connections are extremely slow in today's environment. It takes 25 to 40 seconds for credit/debit card authorization compared to the industry standard of less than 1 second. A WAN will be required to accommodate the state's new HR system being implemented in 2005.

## Purchasing and Merchandising

As the Deloitte & Touche Retail Business Plan emphasized, leading retailers generally use a merchandising strategy that sets the course for product selection, ordering, product allocation to stores, store layout, and shelf and category management. The WSLCB has policies and systems for product selection, purchasing, and distribution. However, no overall merchandising strategy, shelf or category merchandising programs are in place. Purchasing Services continues to use an outdated forecasting and re-order system that does not operate on modern inventory management principals.

Successful merchandising programs can generate sales and maximize margins, particularly in a changing marketplace. ~~Input from manufacturers suggests~~ an effective store merchandising program can increase sales between two and three percent, although the specific success rate is difficult to prove as there are many variables that impact sales trends. Each percentage point increase in annual sales equals $5 million added to gross sales. This opportunity is supported by research that indicates the majority (66 percent) of consumer decision making occurs in the store and that today's customers make choices quickly after minimal search and price comparison. A store-merchandising program can:

**Successful merchandising programs can generate sales and maximize margins, particularly in a changing marketplace. If a 3 percent increase were realized, the WSLCB's annual sales would increase by over $15,000,000.**

- Promote ease of product selection
- Encourage impulse purchases
- Optimize shopper trade-ups
- Help minimize out-of-stocks
- Make product mix decisions and inventory control easier

Initiatives in this area include:

## Create a Store Merchandising Program

Basic elements of a merchandising program would include:

- Optimum product selection
- Uniformity of look in state-operated stores
- Effective category and shelf management programs
- Consistency with current design concepts
- Expanded training for store teams
- Maximum use of floor and shelf space
- Consistent and effective signage
- Flexibility in fixtures
- Explore other retail store concepts

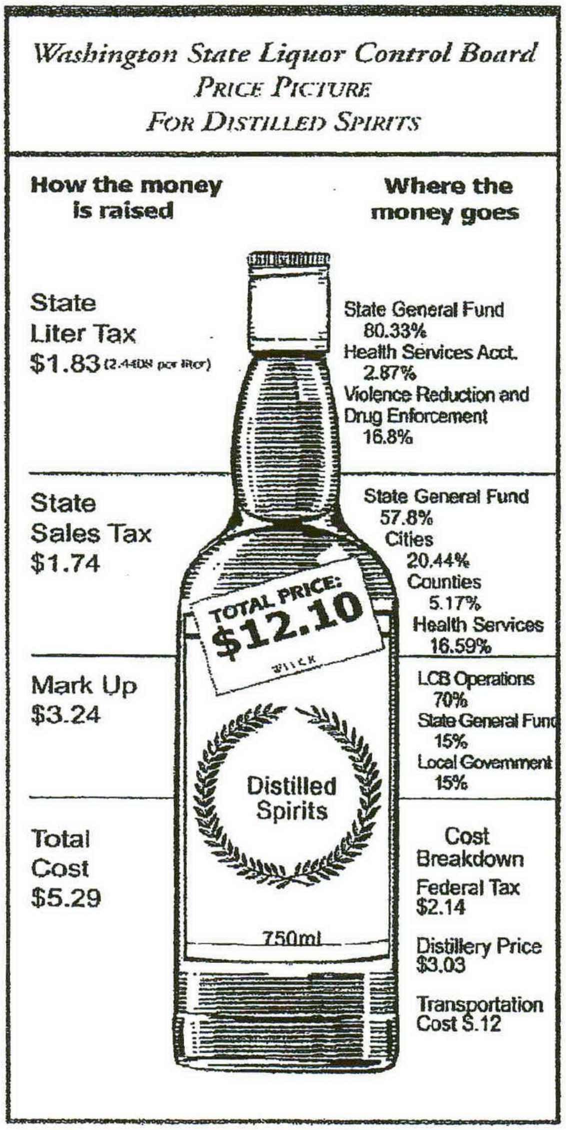
1. **Hire a Merchandising Manager**
   A Merchandising Manager is needed to direct this work and to work more closely with suppliers to ensure their viewpoints are being heard. This position is similar to the Wine Program Manager position created in 1996 to focus on the purchasing and merchandising of wine. Wine sales rose from $19 million in 1996 to more than $36 million in 2001.

## Pricing

The retail price of liquor sold in state-run and contract liquor stores is determined by five elements:

1. Distiller's, brewer's, or vintner's price to the Board
2. Federal taxes--excise tax rates on all liquor, plus custom duty rates on imported liquor
3. Freight costs
4. Markup controlled by the Board
5. State sales taxes that are set by the State Legislature

On the following page is a breakdown of how the above elements are applied to the pricing of one bottle of liquor.




For wholesale accounts there is a tax exemption and a standard discount. Discount rates and tax exemptions are also established for Tribes and military establishments.

For spirits, the Board approves all new product listings, and these products have twelve months to meet profitability requirements. Spirit listings are recommended to the Board by the Purchasing Services Director, using established criteria. Wine listings are recommended to the Board by the Wine

Program Manager, with input from the Wine Advisory Committee. Wines are available for general distribution to all stores or are distributed to "hub stores," which receive wines bought in smaller quantities and distribute to other stores in the area that may wish to sell these products. Existing products are reviewed annually to see if they meet the profitability standard for their product class.

The markup the Board establishes on products, and the resulting margins made on sales are the key determinants of the Cost of Goods Sold percentage. In conjunction with the goal of reducing the businesses Cost of Goods Sold, a review is being done to determine opportunities to increase margins on specific products to support the Cost of Goods Sold reduction goal.

## Inventory Management

Inventory management is a key component of purchasing and merchandising. Knowing where stock is, what is in stock and out-of-stock, setting inventory levels, and managing inventory turns and special order programs all affect purchasing and merchandising decisions. The new point-of-sale system will improve this capability. During the next three years, managing inventory levels will be a third way of reducing the business's Cost of Goods Sold. Results of this effort will include the following:

1. **Increase Inventory Turns in State Liquor Stores**
   The goal is to increase inventory turns from the current 10.4 turns per year to 11.5 inventory turns per year by June 30, 2006, and to 13 inventory turns by June 30, 2007. Achieving an increase to 13 turns per year from the current 10.4 will improve working capital by $10 million.

## Distribution

The mission of the agency's liquor Distribution Center is to ensure the timely, safe, and efficient receipt, storage, and shipment of spirits, wine, and beer to the 315 state-run and contract liquor stores and to tribal and military outlets located throughout the state.

As part of the agency's plan to modernize the state's liquor retail and distribution systems, the agency's original Distribution Center was replaced with a new 160,000 square-foot facility on the existing Seattle site. The WSLCB has been operating out of the new Distribution Center since April 2002 with a new automated material handling system to process the approximately 17,000 cases of liquor shipped out of the facility each day.

The Distribution Center maintains a daily inventory level of between 400,000 and 500,000 cases of liquor, depending on peak periods. The receiving department processes receipts from approximately 330 domestic and international shippers. Local freight carriers redistribute product weekly to the 315 retail outlets. Since 2001, shipments have increased from 3,748,028 to 3,925,563 cases for 2003. This is a 4.7 percent increase in volume in 3 years. The October through December 2003 holiday period reflected a 3.8 percent increase over the same time period of 2002.

Having a reliable and responsive distribution system is essential to the success of the overall operation. As such, the following strategies have been established to support this goal:

1. **Increase the Distribution Center's Capacity**
   The DC was designed in the early 1990s to meet an estimated one percent annual growth rate over a 20-year period. Real growth in bottle sales far outpaced this estimate. In 2002, when the DC opened, it already was operating near capacity during peak periods. By 2003, the agency had already achieved the 20-year growth level predicted a decade earlier. The DC's capacity is being stressed during the off-season and is seriously challenged during the holiday peak season. The agency now predicts sustained annual growth of 5 percent. The DC needs to be expanded this biennium or it will not be able to fully handle the WSLCB's product shipping and storage needs.

2. **Achieve a Fill Rate of 96 Percent of Available Product**
   To accomplish this goal going forward, the staffing at the Distribution Center needs to be modified and capacity increased. Similarly, as growth occurs, the need for spare parts increases. It is also important that the Distribution Center has spare parts readily available as existing parts break or wear out. Any downtime affects deliveries and availability of stock at stores. Because the vendor is from overseas, some parts are not readily accessible. The DC has obtained an inventory of parts to be physically located at the Distribution Center.

## Customer Service

1. **Install a Wide Area Network (WAN)**
   Credit/debit card authorizations take 23 to 40 seconds to complete compared to the industry standard of less than one second. This causes lengthy delays and loss of efficiency during peak periods and holidays. These delays discourage customers from returning and leave them with a negative perception of how the state does business. Other revenue opportunities will be possible once a WAN is installed, like gift credit cards and additional lottery games, that will generate even more revenue for the state.

2. **Line Buster Technology**
   Customer throughput in our stores can be improved with Line Buster technology. Portable scanning equipment combined with our new MBS system will help reduce long lines during the holidays and have other multiple uses.